



Warren Buffett Thinks “Reaching for Yield Is Really Stupid” — Here’s a Safer Way to Get a Higher Dividend Yield!

Description

In a televised interview with *CNBC*, Warren Buffett stated that the act of “reaching for yield is really stupid” but “very human.”

While super-high yields can act as a siren song that leads income-seeking investors to their demise (a dreaded dividend cut alongside capital losses), I think the act of buying reliable, blue-chip, dividend heavyweights on a broader market pullback is one of the most prudent ways to get more yield for your invested dollar.

There are two ways a stock’s dividend yield can grow: through dividend hikes or a decline in a share price. With the TSX Index pulling back over 5% in less than a week, contrarian income investors now have an opportunity to get a slightly higher yield for marginally lower prices.

You’re not actively “reaching for yield” per se; you’re capitalizing on an opportunity to pay less to get more, and that’s always a sound investment strategy.

When stocks collectively plunge as they sometimes do, a baby is bound to be thrown out with the bathwater. And for those who are willing to be greedy while others are fearful, there are tremendous rewards to be had that go beyond just quick gains to be had in an upside correction.

This piece will have a look at two dipped dividend stocks that can allow one to “lock in” a considerably more handsome dividend yield amid the broader market pullback. And if shares of either name don’t fully recover within the next year, their yields could stand to be propelled even higher through generous dividend hikes.

Without further ado, consider **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), a severely out-of-favour dividend darling that I view as temporarily battered such that its yield is considerably higher than mean levels.

Jim Cramer isn’t fond of energy stocks anymore — not after the recent sharp drop in oil prices as a result of a global demand shock. And while you’ll stand to take a beating by going against the grain

with the falling knife energy stocks out there, I think [high-quality dividend payers](#) with robust balance sheets, like Canadian Natural, are still worthy of owning at today's now depressed levels.

Canadian Natural currently sports a 4.2% dividend yield, which is well covered and is in a position to grow, regardless of which direction oil prices or the stock head over the near term.

Canadian Natural owns some prime assets within Alberta's oil patch, and although most of the value is land-locked at sub-\$50 WTI prices, I think that many investors have discounted the firm's ability to fare a lower oil price environment, which may be here to stay.

Despite the headwinds, Canadian Natural is a massive [cash cow](#). The company raked in \$1.9 billion in free cash flow as of the last quarter. With a management team that's dedicated to protecting its shareholders from the volatile industry environment, I wouldn't at all be surprised if a larger-than-average dividend hike is on the horizon to "bribe" investors back into the stock.

It's seldom a good idea to bet against a secular trend, but with CNQ shares trading at a mere 6.9 times EV/EBITDA, the stock is just too cheap to pass on, even with the dire industry headwinds that make it scary to step in with a contrarian stance.

If you're looking for a hefty yield that could swell further, it makes a tonne of sense to hold your nose and buy a half position in CNQ now at \$35 and change while waiting for a further pullback to \$30 before putting the other half to work.

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Date

2025/08/10

Date Created

2020/02/27

Author

joefrenette

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